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Mexico

SUGAR SEMI-ANNUAL

Sugar

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Report Highlights:

The Sugar Committee recently released its preliminary sugar production estimate for MY 2009/10 at 5.4 million metric tons (MMT) - raw value, which is lower than our previous estimate. The industry believes that production could increase if adequate rain levels continue for October and November. The estimate of sugar production for MY 2008/09 was revised down to 5.26 MMT - raw value - due to the closing of three sugar mills and poor fertilization in various areas. The sugar consumption (food) estimates for MY 2008/09 were revised slightly upward to 5.3 MMT- raw value – compared to our previous figure based on official data. The Secretariat of Economy (SE) also announced the authorization to import nearly 900,000 MT of sugar under TRQ's until the end of 2009 (please see: MX9049, MX9055, MX9056, MX9064, and MX9066). This is due to a decreased production and augmented exports to the United States.

Commodities:

Sugar Cane for Centrifugal
Sugar, Centrifugal
Corn

Production:**SUGAR**

The Mexican sugar production forecast for MY 2009/10 was revised downward. The National Sugar Committee released its first sugar production estimate for MY 2009/10 at 5.4 million metric tons-raw value (MMT-RV), which is a lower than Post's first estimate. However, the sugar industry believes that if rainfall continues for the months of October and November, production could increase.

For MY 2008/09, the closing of three sugar mills and poor fertilization in various areas decreased cane yields and prevented the industry from achieving their expected production levels. The National Sugar Committee and the Secretariat of Economy (SE) estimate sugar production at about 5.26 MMT-RV, which is down from previous estimates.

The area planted for MY 2009/10 forecast remains unchanged. The National Sugar Committee estimates area harvested for sugarcane for MY 2009/10 at 663,173 hectares (has) as weather has not been favorable. If rainfall continues for October and November the forecast could be more favorable. Even though there are provisions within the National Program for the Sugar Cane Agroindustry (PRONAC) to encourage the production of ethanol from sugar cane, particularly for the export market, this process is still not profitable in lieu of current low international oil prices. Production for sugar cane is also forecast to decrease to 44,083 MMT.

Area harvested for MY 2008/09 was revised downward based on industry estimates. Producers believe that less than optimal weather factors and less fertilization used during 2008 reduced the final sugar cane yields. Area harvested and sugar cane production for MY 2007/08 were revised based on final industry data. MY 2007/08 figures were revised in order to agree with the Mexican government's stock data. To date, post has not received the balance for that year.

High Fructose Corn Syrup

The Mexican high fructose corn syrup (HFCS) industry produces HFCS with domestic and imported U.S. yellow corn. According to IDAQUIM, the industry group that represents the HFCS producers, this industry consumes about two million tons of yellow corn of which 80 percent is imported. The United States will remain the main supplier of corn to Mexico for the foreseeable future. Since trade has been fully liberalized under NAFTA, this grain can be imported by the industry at any time. On the other hand, the GOM continues to encourage forward contract purchases between farmers and yellow corn buyers in an attempt to influence production patterns. Nevertheless, sources indicate that Mexican farmers will continue to plant white corn due to resistance to change, lower yields of yellow corn compared to white, and difficulty accessing quality seed.

Sources indicate that the HFCS production for MY 2008/09 is forecast at 335,000 MT dry basis, which is 5.6 percent lower compared to the MY 2007/08 production. Sources indicate production decreased in MY 2008/09 due to a mixture of decreased yellow corn production for HFCS production as well as an increase in U.S. yellow corn imports for the feed industry. However, industry sources indicate that high sugar prices for the second semester of 2009 might encourage other industries to use HFCS and increase production.

Imports for the same period decreased to 254,000 MT due to an increase of HFCS prices in the United States and also an unfavorable exchange rate against the dollar. As previously reported, the increase in HFCS consumption will also depend on domestic sugar prices, corn prices and domestic supplies. HFCS production for MY 2009/10 could increase if sugar prices continue to be high.

Consumption:

SUGAR AND HFCS CONSUMPTION

Domestic sugar consumption for MY 2009/10 is forecast to be the same as MY 2008/09 due to a continual decrease in purchasing power, which has been fueled by the international financial crisis. Sugar consumption estimates for MY 2008/09 were revised slightly upward from previous estimates to 5.3 MMT-RV based on official estimates, but still reflects low consumer purchasing power. Escalating domestic prices fueled by speculation and sugar shortages has also decreased domestic consumption.

According to information from the Secretariat of Economy's Sistema Nacional de Informacion e Integracion de Mercados (SNIIM) from January to August 2009, prices for wholesale standard sugar increased 70 percent and about 47 percent for refined sugar. The Secretariat of Agriculture expects that with the increase in sugar imports, there will be enough domestic supplies to last until October when the new sugar harvest begins, which will allow Mexico to carry a sufficient supply

throughout the remainder of 2009.

The sugar industry claims that sugar consumption growth has been flat due to a slowdown in consumer purchasing power. Although the industry has claimed in the past that HFCS consumption growth restricted sugar consumption, for MY 2008/09 this factor is not important since HFCS prices are less competitive. Sugar shortages and high prices could help HFCS consumption increase. Based on industry information, HFCS consumption for MY 2008/09 is forecast to be around 590,000 MT dry basis, compared to the previous estimate of 782,000 MT dry basis in MY 2007/08. This trend could change in the near future with competitive HFCS prices.

Trade:
SUGAR

Mexico's recent change to its "temporary" classification for imports and exports has made trade analysis more complex. Due to the growing concern of Mexico's use of Temporary Export Permits (TEP's) for sugar exports to the United States, the SE proposed a modification to the Agreement that Entitles the SE to Issue Rules and Standards of Foreign Trade. On August 27, 2009, official modifications were published in the *Diario Oficial* (Federal Register) that allows the SE to obtain more authority over sugar TEP's, which would provide more certainty and order to foreign trade. (See report MX9057.)

The MY 2009/10 sugar export forecast was revised downward as sugar production in Mexico is not expected to be as high as previously expected and beginning stocks are also expected to be lower than previously forecasted. The export estimate for MY 2008/09 was revised upward to approximately 1.27 MMT-RV as domestic sugar inventories were high at the beginning of 2009 and the industry decided to export sugar under the "temporary" program in order to re-import again later in the year. However, this strategy did not work and the country suffered from low stocks and high prices by the end of July causing the GOM set up an import strategy (See Policy Section).

The MY 2009/10 sugar imports (1 - please see note below) forecast was revised upward due to a low beginning inventory and an expected lower sugar production. Sugar imports for MY 2008/09 were revised slightly upward from previous estimates reflecting the need to import due to an aggressive plan to export during the first semester of 2008 under the TEP. Therefore, the GOM planned a sugar import strategy to solve the low stock level by the end of MY 2008/09 and the beginning of MY 2009/10, by opening sugar tariff rate quotas that could be imported up to December 31, 2009.

Out of the allocated 550,000 MT tariff rate quota to be imported to meet the domestic demand, the vast majority would be imported during the beginning of MY 2009/10. As of late October 2009, official statistics show that approximately 100,000 MT has been imported. (See Policy Section)

As a result of sugar use under the “other disappearance” category that is mainly for the Mexican re-export program (IMMEX) (2 - please see note below), MY 2009/10 is forecast to be 200,000 MT-RV slightly lower compared to MY 2008/09; that is if sugar continues to have high prices and low stocks. Sugar use for MY 2008/09 is estimated at 266,000 MT-RV, which is also lower than expected due to decreased demand. The IMMEX program allows sugar to be sold to Mexican food manufacturers as raw material for further processing. These food manufacturers must then process the sugar within six months of the date of purchase (see GAIN Report MX8030) and must export the final processed product. Although this report does not consider these products when calculating sugar exports, the GOM does classify the sugar sold under the IMMEX program as exports. Therefore, it is difficult to have an accurate figure for sugar under this program.

HFCS TRADE

The import forecast for MY 2008/09 is expected to slow down between 270,000 and 280,000 MT, dry basis, compared to higher levels in MY 2007/08 that was between 420,000 and 430,000 MT, dry basis. Low domestic sugar prices in early 2008, high prices for imported HFCS, and the unfavorable exchange rate, resulted in limited demand for this product. The import forecast for MY 2009/10 could be similar to that of MY 2008/09 due to an unfavorable exchange rate. Any increase in HFCS consumption will depend on domestic sugar prices, corn prices, sugar domestic supplies, and the exchange rate against the dollar.

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- 1. Most of the refined sugar imported into Mexico has been classified by customs into the HTS 1701.99 category, corresponding to “other pure sucrose”. It has also been confirmed that U.S. sugar exports for Mexico were classified under the same category.*
 - 2. Decree for the Development of the Manufacturing, Maquila and Export Services Industry. The program was formerly known as PITEEX.*

Stocks:

According to official GOM data, beginning stocks for MY 2008/09 were revised upward to 1.98 MMT-RV since the National Audit reported higher inventories. Currently, an ongoing review to determine the origin of these surpluses is being conducted by the Sugar Committee, but this data continues to create a discrepancy in stocks. Final stocks for MY 2008/09 were revised downward due to shortages in the domestic market. Although, some imports from TRQ’s are included, the final stock number will depend on how many tons were imported by the end of September 2009. Therefore, beginning stocks for MY 2009/10 will also depend on imported sugar from TRQ’s.

Policy:

Due to the need to maintain a stable market, the SE published three announcements to

allow sugar to be imported under special TRQ's for about 734,000 MT-RV of refined sugar and 219,000 MT-RV of standard sugar. The first announcement on August 6, 2009, allowed Mexico to import a maximum of 393,000 MT (416,580 MTRV) of sugar of which 353,700 MT could be imported from any country under a preferential tariff rate quota for 36 dollars per MT while 39,300 could be imported duty-free from Nicaragua. The bids took place through a special bidding process (see Report MX9049). On August 13, 2009, the SE published the particulars of the public bid to allocate the first 100,000 MT of refined sugar to be imported during August-December 2009. The public bid was held on September 2, 2009 (see report MX9055). On August 27, 2009, the SE published the second public bid to allocate 150,000 MT of refined sugar. The public bid was held on September 18, 2009 (see report MX9056).

The second announcement of a TRQ on September 7, 2009, was for 200,000 MT of standard sugar (212,000 MT-RV), where 186,300 MT was allowed to be imported from any country under a specific TRQ while 20,700 MT could be imported duty-free from Nicaragua. Similar to the other TRQ, this quota would be allocated under public bidding (see report MX9064). So far, the SE has not published the bids for this TRQ.

On September 18, 2009, the SE announced the third sugar import tariff rate quota for 300,000 MT of refined sugar (318,000 MT-RV). As in the previous quota announcements, Nicaragua received a 10 percent allocation of the total amount, which means a maximum of 270,000 MT could be imported from any country under a specific TRQ. This allocation will not follow the open bid process that the other allocations used, but instead, the SE will establish a mechanism that will directly assign the quota to the participants who bid on September 2, 2009, but did not receive an allocation at that time (see report MX9066). The bids for this TRQ took place on the same day of the announcement.

However, the sugar milling industry, sugar cane producers and legislators did not agree with SE's policy to import more sugar through TRQ's. In fact, the President of the Special Commission for the Agro-Industry in the Senate indicated that authorities should stop authorizing quota imports. Furthermore, the President of the Commission warned that if all 900,000 MT of sugar are authorized to enter the country, sugar would saturate the market and not achieve a balanced sugar market. According to the President of the Commission, this would create disorder in the domestic market by November when the sugar harvest for MY 2009/2010 starts. As of now the industry and legislators consider that the 550,000 MT, which has been authorized to be imported, is enough to meet domestic demand. Despite this policy, the SE has not succeeded lowering domestic sugar prices yet, as retail prices by the end of September were about \$18 pesos/kg (US\$0.57/kg) while sugar was about \$8.50 kg (US\$0.64/kg) January 2009.

ETHANOL

The Biofuels Law, which first passed Congress on April 26, 2007, and was amended in October 2007, was finally published in the Mexico's *Diario Oficial* (Mexican Federal Register)

on February 1, 2008. As previously reported, the Law contains a comprehensive biofuels policy that promotes ethanol production from different agricultural commodities. According to the sugar mill industry, ethanol production from sugar cane in Mexico is still not feasible or profitable due to the high price of cane, the need for the vast majority of production to be used for centrifugal sugar, and the lack of a domestic ethanol market. The cost of production per ton of cane is still high when compared to countries like Brazil where sugar cane is sold between \$15 and \$18 dollars (in Mexico, sugar cane is about \$37 to \$40 dollars per ton). There are, however, provisions within the Sugar Law that contain overall goals focused on the possibility of producing ethanol. Thus far, necessary government policies have not been implemented. As indicated earlier, investments in ethanol in Mexico primarily focused on corn based production.

Despite the Mexican Supreme Court having declared in 2001 that the GOM's ownership of the nation's sugar mills was unconstitutional, 13 of Mexico's 27 government-owned sugar mills are still government- owned. The Supreme Court ordered the Secretariat of Agriculture (SAGARPA) to give back the ownership of the mills to the previous owners, but there has been no set deadline by which all of the mills must go back to private ownership.

Production, Supply and Demand Data Statistics:

Centrifugal Sugar Table

Sugar, Centrifugal Mexico 1,000 Metric Tons	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Annual Data Displayed	New Post Data		Annual Data Displayed	New Post Data		Annual Data Displayed	Sep Data	
Beginning Stocks	1,718	1,718	1,885	1,615	1,613	1,975	920	1,026	619
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	5,852	5,852	5,852	5,550	5,554	5,260	5,500	5,870	5,400
Total Sugar Production	5,852	5,852	5,852	5,550	5,554	5,260	5,500	5,870	5,400
Raw Imports	26	25	25	10	10	10	35	50	25
Refined Imp.(Raw Val)	200	200	200	390	160	205	500	300	685
Total Imports	226	225	225	400	170	215	535	350	500
Total Supply	7,796	7,795	7,962	7,565	7,337	7,450	6,955	7,246	6,755
Raw Exports	217	217	193	385	100	305	25	50	25
Refined Exp.(Raw Val)	460	460	288	480	480	960	125	200	425
Total Exports	677	677	481	865	580	1,265	150	250	450
Human Dom. Consumption	5,090	5,090	5,090	5,340	5,291	5,300	5,250	5,345	5,340
Other Disappearance	414	415	416	440	440	266	400	490	200
Total Use	5,504	5,505	5,506	5,780	5,731	5,566	5,650	5,835	5,540
Ending Stocks	1,615	1,613	1,975	920	1,026	619	1,155	1,111	765
Total Distribution	7,796	7,795	7,962	7,565	7,337	7,450	6,955	7,246	6,755

PS&D Sugar Cane For Centrifugal

Sugar Cane for Centrifugal Mexico 1,000 Metric Tons	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Nov 2007			Market Year Begin: Nov 2008			Market Year Begin: Nov 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Sep Data
Area Planted	983	677	683	680	680	749	740	740	740
Area Harvested	668	666	668	668	668	663	698	698	663
Production	48,305	50,000	48,305	49,000	51,000	42,517	52,000	52,000	44,083
Total Supply	48,305	50,000	48,305	49,000	51,000	42,517	52,000	52,000	44,083
Utilization for Sugar	48,305	50,000	48,305	49,000	51,000	42,517	52,000	52,000	44,083
Utilization for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	48,305	50,000	48,305	49,000	51,000	42,517	52,000	52,000	44,083

Trade Matrixes

SUGAR	H.S. 1701	Units: Metric Tons	
EXPORTS FOR MY 2007/08 (Oct-Sept) TO:		IMPORTS FOR MY 2007/08 (Oct-Sept) FROM:	
U.S.	597,765	U.S.	193,505
Other		Other	
Dominican Republic	41,000	Canada	16,000
Total of other	41,000	Total of other	16,000
Others not listed	29,660	Others not listed	3,544
Grand total	668,425	Grand total	213,049

SUGAR	H.S. 1701	Units: Metric Tons	
EXPORTS FOR MY 2008/09 (Oct-Sept) TO:		IMPORTS FOR MY 2008/09 (Oct-Sept) FROM:	
U.S.	1,097,766	U.S.	98,438
Other		Other	
Canada	12,375	Canada	91
Total of other	12,375	Total of other	91
Others not listed	6,510	Others not listed	41
Grand total	1,116,651	Grand total	98,570